

**ATTACHMENT 9**

**QUESTION 25: Evidence of Applicant's Financial Fitness.**

Attached hereto are the following documents which demonstrate Applicant's financial fitness:

2002 SEC Form 10-KSB Annual Report and most recent SEC Form 10-QSB Quarterly Report

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<TYPE>10KSB  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-KSB

Annual Report Under Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2003

Commission file number: 2-42114

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Local Telecom Systems, Inc.  
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(Name of Small Business Issuer in Its Charter)

State of Nevada

75-1310613

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer Identification No)

3535 West 7th Street, Suite 1, Fort Worth, Texas 76107  
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(Address of Principal Executive Offices)

Issuer's Telephone Number including Area Code: (817) 731-1171  
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Securities registered pursuant to Section 12(g) of the Act:

Common stock, par value \$0.0167

The issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes    X

No

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year \$ 237,788

The aggregate market value of common equity held by non-affiliates of the Registrant was \$1,053,165 as of January 13, 2004, based on the price of the common stock, \$.0167 par value, of the Registrant, (\$.095 per share) at the close of the market on that day.

The number of shares outstanding of the Registrant's common stock on September 30, 2003, was 13,371,242 shares and on December 31, 2003 had 16,284,423 shares outstanding. The Company also has 600,000 shares of preferred stock outstanding as of September 30, 2003.

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## PART I

Item 1. Description of Business

## (a) Business Development

Local Telecom Systems, Inc. (the "Company") was organized on February 19, 1969, as a corporation under the laws of the State of Nevada, under the name of International Royalty & Finance Co. for the general purpose of engaging in exploration for oil and gas, and on December 23, 1971, the name of the Company was changed to International Royalty & Oil Co. (IROC). Again on July 10, 1996, the Company changed its name to Signature Motorcars, Inc., in anticipation of entry into the car rental business; however, the anticipated merger was never consummated. In 1997, the Company began acquiring working interests, royalties, and overriding royalties in oil and gas properties within the United States and in foreign countries. However, with the decline of oil and gas prices in 1998, the Company began evaluating opportunities in other industries. On February 22, 2002 the Company entered into a merger agreement with Local Telecom Systems, Inc. and agreed to change its name to Local Telecom Systems, Inc.

During its fiscal year ended September 30, 2003 the Company was not involved in any bankruptcy, receivership, or similar proceeding and underwent no material reclassification, merger, or consolidation. The Company did during the fiscal year ended September 30, 2002, enter into a merger agreement with Local Telecom Systems, Inc. as well as effect a partial distribution of the Company's assets.

August 30, 2002 was the effective date of this acquisition. On this date the Company released the 27,335,854 restricted shares to the principles of this acquisition and in return they conveyed the property, rights, privileges, agreements, tariffs and various license agreements to LTSI. The Company issued an additional 2,719,818 restricted common shares for consulting services for the acquisition and funding arrangements for the merger with Local Telecom Systems, Inc. These shares were adjusted after the 4 for 5 reverse stock split to 2,175,854 restricted common shares representing a 5.6% fee for the services rendered in connection with this acquisition. The sole consideration for these consulting services was restricted shares of the Company's common stock.

At a shareholders' meeting held on February 22, 2002, the holders of a majority of outstanding common stock approved stock dividends to the shareholders of 100% of the outstanding common stock of the Company's four wholly owned subsidiaries. The effective date of these stock dividends was April 15, 2002, prior to the effectiveness of the merger with LTSI. Each stock dividend was approved on the basis of one (1) share of each subsidiary for every three (3) shares of the Company's common stock owned. Pursuant to these stock dividends, the ownership

of the following subsidiaries was transferred from the Company directly to the shareholders on a pro rata manner: International Royalty & Oil Co., Signature Financial Services, Inc., Cumberland Continental Corp., and Signature Healthcare, Inc. Each former subsidiary company now has 100,000,000 shares authorized for issuance, 5,217,179 shares of restricted common stock issued and outstanding, par value of \$0.001 per share. The record date for the distribution of the 5,217,179 common shares in each of the four companies was April 15, 2002 at no additional cost to the existing shareholders.

On July 3, 2003 a resolution was approved by the Board of Directors and accepted by four major shareholders to convert 30,000,000 common shares to preferred shares (Series A) , which reduced the number of common shares from 39,330,585 shares to 9,330,585 shares issued and outstanding on July 3, 2003. The Series A preferred stock is convertible at the rate of 50 shares of common shares for each shares of preferred stock. Each shares of Series A preferred stock is entitled to 50 votes in shareholder votes. The Series A preferred stock is entitled to a dividend of \$.50 per share per year payable quarterly out of funds approved by the Board of Directors that are not below the level deemed necessary for the operation of the Company. The liquidating preference is \$5.00 per share. The preferred shareholder has the option to convert each share of preferred stock into 50 shares of common stock at their option until September 1, 2006 when the shares will automatically converted into common stock by the Company.

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On September 22, 2003 the Company issued 2,436,000 shares of restricted common stock to a group of accredited investors in Europe. Also during September a total of 1,559,657 shares were issued for consulting services and also 45,000 shares were issued to directors for their director's fees. On September 30, 2003 the Company had 13,371,242 common shares issued and outstanding and 600,000 preferred shares issued and outstanding.

(b) Business of Issuer

The Company, Local Telecom Systems, Inc. (LTSI), offers local and long distance

service on a prepaid basis. Specifically, local services include a "bare bones" product providing unlimited local dial tone and 911 emergency access with the option of several custom calling features, for additional fees, including Call Waiting, Caller ID, Call Forwarding and Speed Dialing. These features may be purchased individually or in a package at reduced rates.

LTSI purchases phone services from the incumbent local exchange carrier (ILEC) at deep discounts (currently up to 26%) and resells the service on a prepaid basis at a premium, allowing attractive profit margins. The markets are households without phone service due to lack of credit history or a poor credit history, and/or the inability to pay a deposit.

LTSI is a flat rate service provider with its customer base in Texas, New Mexico and Arizona as of September 30, 2003. LTSI is not a measured service provider, which is when service is provided on a "per call" or "minute basis".

LTSI is a local telephone service reseller with an acquired three-year-old customer base in Texas, New Mexico and Arizona. LTSI has the necessary licenses and interconnect agreements to offer, on a national basis, prepaid local telephone service and various ancillary products such as 911, caller ID and prepaid long distance. The following are brief highlights of LTSI business:

Experience - LTSI management has been in the prepaid industry since 1997 shortly after the passage of the Telecommunications Act of 1996 and has years of experience in the prepaid local telephone reseller niche, primarily the Hispanic market. LTSI also has consulting contracts with individuals that have extensive communications experience.

Hispanic Market - The Hispanic market has a higher growth rate than other demographic sectors, unusual brand loyalty, and twice the national average propensity for prepaid telephone service.

Economics - The prepaid telephone service reseller business has attractive margins, minimal capital expense and minimal bad debt. LTSI acquires heavily discounted telephone service from the incumbent local exchange carriers, such as Southwestern Bell, Bell South, Sprint, Verizon and Qwest and charges premium rates yielding above average profit margins. Additionally, customers must pay prior to receiving service, thereby mitigating bad debts.

## Risk Factors

Termination of License/Certificate - Failure to pay Utility Tax, Line Charge or license fees in the states in which we operate would result in a termination of

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LTSI's license and/or certificate within the state. Unauthorized change in service provider, known as "Slamming", would also terminate a license or certificate to do business as a reseller of local phone service. Although the Company does not intend on allowing any of these events to occur, if any do occur, the Company would be prohibited from engaging in the local telephone service market, which would have a material adverse effect on the Company.

Dependence on Third Parties - The Company depends on many consultants, vendors and suppliers to conduct business. For example, with expected growth, the Company may require the use of a billing service to mail the monthly invoices to our customers and the Company may also use a telemarketing company for subscribing new customers during an advertising campaign. LTSI is not equipped with the necessary personnel or equipment to handle either of these services and is therefore dependent to outsource these types of services. A loss of any one of these third parties would significantly disrupt our operations.

Dependence Upon Management - The operations and financial success of the Company are significantly dependent on the managerial personnel of the Company, Katey Daniel, Arthur Berger and William Miertschin. In the event that the management of the Company becomes unable or unwilling to continue to direct its operations, the Company could be adversely affected.

Incumbent Local Exchange Carrier (ILEC) - The Company purchases phone lines from the ILECs at a discount and resells the lines on a prepaid basis; however, the ILEC companies could offer those same lines to the Company's customers. For the most part the ILECs are not interested in this market and have set their pricing and restrictions to exclude most of our target market. However, ILEC's may compete directly with the Company, which would drastically increase competition and likely impair our business.



Incumbent Based Operation- The Company is a resale based operation and not a facility based operation and therefore any Acts of God, Terrorist Acts or Union Strikes that cause phone service to be interrupted will result in the Company's total dependence on the ILEC provider to restore operations in a timely fashion. Poor service provided by our ILEC could result in the loss of customers to our Company.

The Financial Difficulties of Other Competitive Communications Providers Could Adversely Affect our Financial Results - Many competitive local exchange carriers and other emerging communications providers have experienced substantial financial difficulties over the past year, in some cases leading to bankruptcies and liquidations. The financial difficulties of these companies could reflect poorly on the Company's financial stability, may diminish its ability to obtain further working capital and may adversely affect the willingness of potential customers to move their communications services to a competitive local carrier like Local Telecom Systems, Inc.

#### Competition and Markets

The telecommunications industry is highly competitive. The Company believes that the principal competitive factors affecting its business are pricing levels and clear pricing policies, customer service, accurate billing and, to a lesser extent, variety of services. The Company's ability to compete effectively depends upon its continued ability to maintain high quality, market-driven services at prices generally equal to or below those charged by our competitors. To maintain its competitive posture, the Company believes it must be in a position to reduce its prices in order to meet reductions in rates, if any, by

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others. Any such reductions could materially adversely affect the Company. Many of the Company's current and potential competitors have financial, personnel and other resources, including brand name recognition, substantially greater than we do or expect to have in the near term.

Telephone service providers like LTSI are subject to competition from other

providers including those incumbent local exchange carriers from which LTSI purchases phone lines. As a result of the Telecommunications Act of 1996, telephone companies are no longer afforded exclusive franchise service areas. Under that Act, competitors can offer telephone services to LTSI subscribers. The Act contemplates that various regulations will be promulgated by the Federal Communications Commission (FCC) and state regulatory agencies to implement various parts of the Act, such as regulations setting out the procedures and methodologies for implementing and promoting competition in the telephone industry. The regulations could have a material adverse effect, and the Act does open the opportunity for others to be competitive for the same markets.

LTSI is initially targeting Hispanic households in the United States that currently do not have telephone service. This sector presents opportunity, as Hispanics: are growing at a rate faster than the national average; tend to be brand loyal; have a higher than average number of residents in the home creating a need for service; have favorable feature and long distance use; and are easier to target market than other segments, as they tend to watch specific television programming formats and networks during less expensive time periods, allowing for reduced advertising costs. Other local exchange carriers that target this same sector include, but are not limited to, Smoke Signal, 4Aphone and ComSouth.

The Act of 1996 has significantly increased the level of competition in our local exchange markets. One of the purposes of the 1996 Act was to ensure, and accelerate, the emergence of competition in local exchange markets. Toward this end, the 1996 Act requires most existing local exchange carriers (incumbent local exchange carriers, or ILECS's), to permit competitive local exchange carriers, or CLEC's, including our Company, to purchase service from the ILEC for resale to CLEC customers and interconnect the CLEC's network with the ILEC's network. As a result, competition in the local exchange markets is expected to continue to increase.

#### Governmental and Other Regulations

LTSI is subject to regulation by the Public Utility Commission, FCC and each of the Utilities Boards in each state in which LTSI holds a license/certificate. LTSI operates our telephone businesses pursuant to license/certificates and various rules and regulations promulgated by these agencies. Although not anticipated to occur, these agencies have the authority to terminate LTSI's right to provide services if they fail to comply with those rules and regulations.

Agencies, like the FCC, require us to file periodic reports, pay various fees and assessments, and comply with rules governing quality of service, consumer protection, and similar issues. Although the specific requirements vary from state to state, they tend to be more detailed than the FCC's regulation because of the strong public interest in the quality of basic local exchange service. We intend to comply with all applicable state regulations, and as a general matter do not expect that these requirements of industry-wide applicability will have a material effect on our business. However, no assurance can be given that the imposition of new regulatory burdens in a particular state will not affect the profitability of our services in that state.

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Under the Telecommunications Act, any entity, including cable television companies, electric and gas utilities, may enter any telecommunications market, subject to reasonable state regulation of safety, quality and consumer protection. Because of the implementation of the Telecommunications Act, LTSI is subject to numerous federal and state policy rulemaking proceedings and judicial review. There is still uncertainty as to what impact such legislation will have on us.

The Telecommunications Act is intended to increase competition. This Act was designed to open the local services market by requiring incumbent local carriers to permit interconnection to their networks and establishing incumbent local carriers' obligations with respect to:

Reciprocal Compensation. Requires all local exchange carriers to complete calls originated by competitive local exchange carriers under reciprocal arrangements at prices based on tariffs or negotiated prices.

Resale. Requires all incumbent local carriers and competitive local carriers to permit resale of their telecommunications services without unreasonable restrictions or conditions. In addition, incumbent local carriers are required to offer wholesale versions of all retail services to other telecommunications carriers for resale at discounted rates, based

on the costs avoided by the incumbent local carrier in the wholesale offering.

Interconnection. Requires all incumbent local carriers and competitive local carriers to permit their competitors to interconnect with their facilities. Requires all incumbent local carriers to permit interconnection at any technically feasible point within their networks, on nondiscriminatory terms, at prices based on cost, which may include a reasonable profit. At the option of the carrier seeking interconnection, co-location of the requesting carrier's equipment in the incumbent local carriers' premises must be offered, except where an incumbent local carrier can demonstrate space limitations or other technical impediments to co-location.

Number Portability. Requires all incumbent local carriers and competitive local carriers to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications carrier to another.

Dialing Party. Requires all incumbent local carriers and competitive local carriers to provide (1+) equal access to competing providers of telephone exchange service and toll service, and to provide nondiscriminatory access to telephone numbers, operator services, directory listing, with no unreasonable dialing delays.

Access to Rights-of-Way. Requires all incumbent local carriers and competitive local carriers to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

Incumbent local carriers are required to negotiate in good faith with carriers requesting any or all of the above arrangements. If the negotiating carriers cannot reach agreement within a prescribed time, either carrier may request

binding arbitration of the disputed issues by the state regulatory commission. Where an agreement has not been reached, incumbent local carriers remain subject

to interconnection obligations established by the FCC and state telecommunications regulatory commissions.

#### Personnel

As of September 30, 2003, the Company had four (4) full time employees plus both full and part time consultants in addition to the Company's officers and directors.

#### Item 2. Description of Property

LTSI corporate offices are located at 3535 West 7th Street, Suite 1, Fort Worth, Texas. These offices are leased by LTSI from Llewellyn Realty. The monthly rental payable by LTSI is \$3,100. LTSI also pays the utilities and insurance. The office lease is a month-to-month lease.

LTSI believes that its leased real estate, buildings, and other improvements are adequate to conduct their businesses as conducted or proposed to be conducted on the date of this filing. LTSI also believes that its leased buildings and improvements have been maintained in good repair and condition, ordinary wear and tear with depreciation excepted. LTSI also believes the leased buildings and improvements are adequately insured. LTSI is not a hardware (facility) based telecommunications company. Equipment consists mainly of office furniture and equipment such as computers, telephone systems and fixtures. Value of said equipment is not material.

#### Item 3. Legal Proceedings

As of September 30, 2003, there were no legal proceedings to which the Company was a party, and no litigation is known to be pending against the Company.

#### Item 4. Submission of Matters to a Vote of Security Holders

Holders of a majority (7,829,179 shares of 15,000,000 outstanding shares) of the Company's outstanding shares of common stock met at a special meeting of stockholders on February 22, 2002, and voted to approve the merger acquisition of Local Telecom Systems, Inc. (LTSI) and restructure the Company for that purpose with a four (4) shares for five (5) shares reverse stock split and the issuance of new shares for the acquisition of LTSI and related assets. At the

same meeting it was also approved to distribute stock in each of the four wholly owned subsidiaries to the existing stockholders on a one (1) share for three (3) shares basis with no additional cost. All 7,829,179 shares voted for each matter and no shares voted against any matter and no shares abstained from voting on any matters.

The Company plans to hold its annual meeting for 2003/2004 during the first half of 2004.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters

#### (a) Market Information

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The Company's shares became listed on the Electronic Bulletin Board in March 2003 with trades as high as \$0.55 and as low as \$0.05. The shares are traded under the symbol "LTSY" for the shares (11,085,952 shares) held by non-affiliates of the Registrant on September 30, 2003. On January 13, 2004 the stock price was \$0.06 Bid and \$0.095 Ask.

During the 2002/2003 fiscal year, 650,000 warrants were exercised at 20 cents per share. On September 30, 2003 the Company had 9,000,000 warrants outstanding to purchase 9,000,000 common shares at an exercise price of \$0.10 per share expiring on June 6, 2006. These warrants were issued as consideration for the conversion of 30,000,000 common shares to 600,000 shares of preferred stock of the Company.

On August 3, 2003 30,000,000 shares of common stock was converted into preferred stock by four parties, William R. Miertschin for 4,000,000 shares, Richard M. Hewitt for 1,000,000 shares, Sammy Dog Ltd. for 12,500,000 shares and Connect Holding Corp. for 12,500,000 shares. See Part III, Item 11 for additional information regarding the ownership of common and preferred stock held by these four parties.

On September 30, 2003, end of the fiscal year, the Company had 13,371,242 shares issued and outstanding of which the Company believes it has 2,234,208 shares that can be sold pursuant to Rule 144 under the Securities Act of which 1,229,205 shares are held by officers and directors. The Company also believes it has approximately 2,436,000 shares that are not eligible for Rule 144 of the Securities Act on September 30, 2003.

(b) Holders

The approximate number of security holders of record of the Company's common stock on January 12, 2004 was 1,522. Additional stockholders hold stock in street name; the number of holders in street name is not available to the Company.

(c) Dividends

The Company did not declare a cash dividend or pay dividends during the fiscal year ended September 30, 2003.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

The Company currently does not have any securities authorized for issuance under any Equity Compensation Plans.

Issuance of Unregistered Shares

During the year ended September 30, 2003, the Company issued 1,559,657 shares of unregistered common shares for consulting services, 45,000 unregistered common shares for director fees and 2,436,000 unregistered shares for a Private Placement in Europe.

The facts relied on to make the exemption from registration provided by Section 4(2) of the Securities Act of 1933 available for the sale of securities discussed above were: (1) the limited number of purchasers; (2) the sophistication or accreditation of the purchasers; (3) their relationship with the Company and/or access to material information about the Company; (4) the information furnished to them by the Company; (5) the absence of any general solicitation or

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advertising; and (6) restrictions on transfer of the securities issued to them as indicated by legend on the certificates representing such securities.

#### Item 6. Plan of Operations

##### Disclosure Regarding Forward-Looking Statements

This Form 10-KSB includes "forward-looking" statements within the meaning of Section 27A of the Securities Act, and the Company desires to take advantage of the "safe harbor" provisions thereof. Therefore, the Company is including this statement for the express purpose of availing itself of the protections of such safe harbor provisions with respect to all of such forward-looking statements. The forward-looking statements in this Form 10-KSB reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from those anticipated. In the Form 10-KSB, the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this section.

##### General Discussion

The primary focus during the 2002/2003 fiscal year was to audit the acquisition/merger, to seek listing on the Electronic Bulletin Board and fund the Company's growth. These filings were made and a successful listing was made in March 2003 under the symbol "LTSY". Prior to and following the Company's listing several attempts were made to secure funding, unfortunately, it was not until August 2003 that limited funding was achieved. The delay in funding caused the Company to lose a significant portion of its customer base plus certain licenses expired in various states. Revenues declined as a result of not having the available working capital to promote the Company's services. A funding campaign is planned during 2004 to initiate a program to reestablish the Company's customer base.

##### Liquidity and Capital Resources



Prior to the acquisition of Local Telecom Systems, Inc. the Company had sufficient cash and or revenues to carry on the Company's limited operations. On September 30, 2003 the Company had current assets of \$34,708 compared to \$20,515 on September 30, 2002 and current liabilities of \$213,911 and \$309,744 respectively for ratios of current assets to current liabilities of .16 to 1 on September 30, 2003 compared to .07 to 1 on September 30, 2002 an improvement due to an increase in cash on hand and reduction in current liabilities. The Company continues to seek additional working capital through an equity financing. These funds will be used to promote the Company's prepaid telephone services in its core states, Texas, New Mexico and Arizona followed by identifying the next top states with the largest Hispanic population to further build the Company's revenues.

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#### Assets and Liabilities

During the fiscal year ended September 30, 2002 the Company distributed all the assets to its four former subsidiaries. The Company elected to write down its basis in the Intangible Assets and Licenses acquired as the customer base decreased due to the lack of funding to continue the advertising and promotion campaign planned for the fall of 2002 and spring of 2003. The Intangible Assets were \$721,116 and Licenses \$525,000 on September 30, 2002 were reduced to \$241,116 and \$265,000 respectively to more fairly represent the impairment of the Company's business operations incurred during the fiscal year ending September 30, 2003.

The Company's liabilities on September 30, 2002, were \$309,744 for accounts payable and accrued liabilities compared to \$181,411 on September 30, 2003. The reduction in accounts payables were primarily due to the lower amount of taxes and debt for equity due on September 30, 2003.

#### Results of Operations

The Company formed the LTS Unit Investment Trust ("UIT") in March 2003 to finance the growth and expansion of the Company. The trust contained a total of 705 units to raise a maximum of \$3,525,000 from this funding program. Only a small amount (\$32,500) was received from this UIT, which was recorded as a note payable. The Company discontinued the UIT offering on June 30, 2003. See Note 4

for additional information in the accompanying financial statements.

The revenues for the fiscal year ended September 30, 2003 were \$237,788 compared to \$42,652 for the year ended September 30, 2002, which was for only the period of time from the effective date (August 30, 2002) until September 30, 2002. The revenues were lower due to loss of customers over the year as the Company was not able to keep its advertising program in place. A major portion of the proposed funding was for advertising and promotion, unfortunately the Company was not successful in finding a significant funding source for until August 2003.

#### Net Income (Loss)

The Company incurred a Net Loss of \$917,925 for the year ended September 30, 2003, and a Net Loss of \$514,863 for fiscal year ended September 30, 2002. The losses incurred in fiscal 2002 were attributable to a \$477,843 distribution of assets through a Subsidiary Stock Dividend. Approximately half of the losses incurred in fiscal 2003 were the write down of assets (Impairment Loss) of \$484,526 due to the loss by attrition of the Company's existing customer base in it's core business as advertising was substantially reduced. See Note 3 for additional information in the accompanying financial statements.

The Company also incurred significant expenditures in Legal and Professional Services (\$90,948), Consulting (\$154,000) and Salaries, Wages, Transfer Agent Fees (\$117,676). These categories total \$362,624 of which \$291,859 was paid by equity through the issuance of the Company's restricted common stock. See Consolidated Statement of Changes in Stockholders' Equity and Note 2 in the Company's financial statements for September 30, 2003 for additional information.

#### Income Taxes

The Company anticipates that it will not generate taxable income sufficient to utilize its carried forward tax losses at this time, based on historical performance. See Note 4 to Financial Statements for additional disclosure.

Per share data the Company lost \$0.07 per common share for the year ended September 30, 2003 compared to \$0.04 for the previous year.

#### Item 7. Financial Statements

The financial statement information for LTSI is set forth immediately following the signature page of this Form 10KSB. See the Financial Statements attached hereto beginning on page F-1.

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CLYDE BAILEY P.C.

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Member:  
American Institute of CPA's  
Texas Society of CPA's

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors and Shareholders  
Local Telecom Systems Inc.

We have audited the accompanying balance sheet of Local Telecom Systems Inc. ("Company") as of September 30, 2003 and the related statement of operations, changes in stockholders' equity, and statement of cash flows for the years ended September 30, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of September 30, 2003, and the consolidated results of their operations and their cash flows for the years ended September 30, 2003 and 2002 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has limited operations currently and suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. This is further explained in the notes to financial statements.

/s/ Clyde Bailey

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Clyde Bailey  
Certified Public Accountant

January 6, 2004  
San Antonio, Texas

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Local Telecom Systems, Inc.  
Consolidated Balance Sheets  
As of September 30, 2003

A S S E T S  
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Current Assets  
-----

Cash	\$	28,751	
Accounts Receivable		5,957	
Total Current Assets			34,708
Fixed Assets			
Equipment, net of accumulated depreciation		32,206	
Total Fixed Assets			32,206
Other Assets:			
Intangible Assets, net of amortization License		241,116 265,000	
Total Other Assets			506,116
Total Assets	\$		573,030
			=====
		L I A B I L I T I E S	
Current Liabilities			
Accounts Payable and accrued expenses		181,411	
Notes Payable		32,500	
Total Current Liabilities			213,911
Total Liabilities			213,911
Commitments and Contingencies			-

S T O C K H O L D E R S ' E Q U I T Y  
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Preferred Stock, par value \$.10 per share authorized shares 1,000,000 shares, 600,000 shares outstanding	60,000
Common Stock	223,299
100,000,000 authorized shares, par value \$.0167, 13,371,242 shares issued and outstanding	
Additional Paid-in-Capital	9,434,083
Accumulated Deficit	(9,358,263)
	-----
Total Stockholders' Equity (Deficit)	359,119
	-----
Total Liabilities and Stockholders' Equity	\$ 573,030
	=====

The accompanying notes are an integral part of the financial statements.

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Local Telecom Systems, Inc.  
Statements of Operations

For the Twelve Months Ended  
September 30      September 30

Revenues:	2003	2002
-----	-----	-----
Revenues	\$ 237,788	\$ 42,652
	-----	-----
Total Revenues	237,788	42,652
Cost of Revenues		
-----		
Telephone Services	\$ 179,923	\$ 22,717
	-----	-----
Gross Profit	\$ 57,865	\$ 19,935
-----		
Expenses:		
-----		
Legal and Professional Services	90,948	5,272
Advertising	14,250	9,000
Impairment Loss	484,526	-
Depreciation	8,051	2,104
Consulting	154,000	-
Salaries, Wages, and Transfer Agent Fees	117,676	31,859
Other Selling, general & administrative expenses	107,112	18,099
	-----	-----
Total Expenses	976,563	66,334
Operating Income	(918,698)	(23,682)
Other Income (Expenses)		
-----		
Interest Income	-	-
Effect of Subsidiary's Stock Dividend	-	(477,843)
Other Income (expenses)	773	(13,338)
	-----	-----
Loss from Continuing Operations	\$ (917,925)	\$ (514,863)
Net Loss	\$ (917,925)	\$ (514,863)
	=====	=====
Basic and Diluted Earnings Per Common Share	(0.07)	(0.04)
	-----	-----

Weighted Average number of Common Shares used in per share calculations	12,520,582	12,520,582
---	------------	------------

The accompanying notes are an integral part of the financial statements.

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Local Telecom Systems Inc.  
Consolidated Statement of Changes in Stockholders' Equity

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Total	Common Stock	Preferred Stock	Additional	Accumulated
Comprehensive Accumulated	Stockholders'	Shares	Paid-In	other
Deficit	Shares	Amount	Capital	Income
Equity	Amount	Amount		
Balance September 30, 2001	11,919,182	\$199,505	\$8,149,883	(11,934)
\$ (7,925,475)	\$ 411,979			
Stock Issued for Cash	25,000	418	4,583	
5,000				
Effect of Reverse Stock Split (3,129,415)	(52,261)		52,261	
(0)				
Shares Issued for Warrants	650,000	10,855	119,145	
130,000				



Stock Issued for Services 67,200	336,000	5,611	61,589
Stock Issued for Acquisition 885,895	29,529,818	492,693	393,202
Comprehensive (Loss): 11,934			11,934
Net Loss (514,863)	-	-	-
Balance September 30, 2002 (8,440,338)	39,330,585	656,820	8,780,662
=====	=====	=====	=====
Conversion of Common to Preferred Stock	(30,000,000)	(501,000)	600,000
			441,000
Stock Issued for Consulting 154,000	1,540,000	25,718	128,282
Stock Issued for Legal Services 64,657	64,657	1,080	63,577
Stock Sold for Cash 61,243	2,436,000	40,681	20,562
Net Loss (917,925)	-	-	-
Balance September 30, 2003 (9,358,263)	13,371,242	223,299	600,000
			60,000
=====	=====	=====	=====
			9,434,083

&lt;/TABLE&gt;

See accompanying notes to Consolidated Financial Statements

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Local Telecom Systems, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

	Twelve Months Ended September	
	30	September
	2003	2002
	-----	-----
Cash Flows from Operating Activities:		
-----		
Net Income (Loss)	\$ (917,925)	\$ (514,863)
Adjustments to reconcile net income (loss) to net cash provided(used) to operating activities:		
Depreciation	8,051	2,104
Stock Issued to Consultants	154,000	67,200
Stock Issued for Legal Services	64,657	-
Impairment Loss	484,526	-
Effect of Subsidiary's Stock Dividend		477,843
Accounts Receivable	14,281	-
Accounts Payable and accrued expenses	98,831	20,933
	-----	-----
Total Adjustments	824,346	568,080
	-----	-----
Net Cash provided (used) in Operating Activities	\$ (93,579)	\$ 53,217

## Cash Flows from Investing Activities:

-----		
Notes Receivable:		
Advances	-	(95,000)
Collections	-	5120
Acquisition	-	(100,000)
	-----	-----
Net Cash provided (used) in Investing Activities	\$ -	\$ (189,880)
	-----	-----

## Cash Flows from Financing Activities:

-----		
Common Stock	89,553	135,000
Note Payable	32,500	-
	-----	-----
	-----	-----
Net Cash provided (used) by Financing Activities	\$ 122,053	\$ 135,000
	-----	-----
Net Increase (Decrease) in Cash	\$ 28,474	\$ (1,663)
Cash Balance, Beginning of Period	277	1,940
	-----	-----
Cash Balance, End of Period	\$ 28,751	\$ 277
	=====	=====
Supplemental cashflow information:		
Cash Paid for interest	\$ 0	\$ 0
Cash Paid for income taxes	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

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LOCALTELECOM SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of Business

Local Telecom Systems Inc. (formerly Signature Motorcars, Inc.) (the "Company") was incorporated in Nevada on February 19, 1969, as International Royalty & Finance Co. Prior to the Company's public offering in 1972, the Company changed its name to International Royalty & Oil Co. In April 1996, the Company's controlling interest was acquired by ExotiCar Rentals, Inc. and the name was changed to Signature Motorcars, Inc. On March 27, 2002, the Articles of Merger was signed with Local Telecom Systems Inc., a Nevada company, and the Company. As part of the merger agreement, the Company agreed to the name change to Local Telecom Systems, Inc. The effective date of the agreement was August 30, 2002.

### Basis of Presentation

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Principles of Consolidation

At the shareholders' meeting held on February 22, 2002, the shareholders approved stock dividends to the shareholders of 100% of the outstanding common stock of four wholly owned subsidiaries. The effective date of these stock dividends was to be prior to the effectiveness of the merger with LTSI. Each stock dividend was approved on a one (1) share for three (3) shares basis. The stock dividends apply to International Royalty & Oil, Inc., Signature Financial Services, Inc., Cumberland Continental Corp., and Signature Healthcare, Inc. The capitalization for each company is 100,000,000 shares authorized with 5,000,000 shares outstanding with a par value of \$0.001 per share. The record date for the distribution of the 5,217,179 common shares was each of the four companies is April 15, 2002.

### Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Net Loss Per Common Share

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 provides a different method of calculating earnings per share than was formerly used in APB Opinion 15. SFAS 128 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. Because the Company has no potential dilutive securities, the accompanying presentation is only of basic loss per share.

#### Statement of Cash Flows

For statement of cash flow purposes, the Company considers short-term investments with original maturities of three months or less to be cash equivalents.

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LOCALTELECOM SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

#### Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 utilizes the asset and liability method of computing deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at

enacted tax rates expected to be in effect when such amounts are realized or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### Property and Equipment

Property and equipment is stated at cost. Depreciation is expensed using straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives are: building-30 to 40 years; equipment and tools-5 to 7 years; software-5 years; furniture and fixtures-5 to 7 years. Depreciation expense in the amount of \$8,051 and \$2,103 has been recognized for the years ended September 30, 2003 and 2002 respectively.

#### Impairment of Long-Lived Assets

The Company follows SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

#### Recent Accounting Pronouncements

##### Segments of an Enterprise and Related Information

Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has evaluated this SFAS and does not believe it is applicable at this time.

## Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 established accounting and reporting standards for business combinations and eliminates the pooling-of-interests method of accounting for those combinations initiated after July 1, 2001. SFAS No. 141 also includes new criteria to recognize intangible assets separately from goodwill. SFAS No. 142 establishes the accounting and reporting standards from goodwill and intangible lives. Goodwill and intangibles with indefinite lives will no longer be amortized, but, alternatively will be reviewed periodically for indicators of impairment. Separate intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company does not anticipate that the adoption of SFAS No. 141 and SFAS No. 142 will have a significant effect on its results of operations or financial position.

## Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Statement ("APB") 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The Company is required to adopt SFAS No. 144 on October 1, 2002. The Company does not expect that the adoption of SFAS No. 144 will have a material effect on its financial position, results of operations or cash flows.

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LOCALTELECOM SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued SFAS No. 146 , "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces "Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on its financial position, results of operations or cash flows.

## 2. COMMON AND PREFERRED STOCK

The Company has 100,000,000 common shares authorized with a par value of \$0.0167 of which 13,371,242 are issued and outstanding as of September 30, 2003. The Company also has 1,000,000 preferred shares authorized with a par value of \$0.10 of which 600,000 shares are issued and outstanding as of September 30, 2003.

On August 3, 2003 30,000,000 shares of common stock was converted into preferred stock by four parties, William R. Miertschin for 4,000,000 shares, Richard M. Hewitt for 1,000,000 shares, Sammy Dog Ltd. for 12,500,000 shares and Connect Holding Corp. for 12,500,000 shares being the current officers and directors of the Company. The Series A preferred stock is convertible at the rate of 50 shares of common shares for each shares of preferred stock. Each shares of Series A preferred stock is entitled to 50 votes in shareholder votes. The Series A preferred stock is entitled to a dividend of \$.50 per share per year payable quarterly out of funds approved by the Board of Directors that are not below the level deemed necessary for the operation of the Company. The liquidating preference is \$5.00 per share. The preferred shareholder has the option to convert each share of preferred stock into 50 shares of common stock at their option until September 1, 2006 when the shares will automatically converted into common stock by the Company.

On September 30, 2003 the Company had 9,000,000 warrants outstanding to purchase 9,000,000 common shares at an exercise price of \$0.10 per share expiring on June 6, 2006. These warrants were issued as consideration for the conversion of



30,000,000 common shares to 600,000 shares of preferred stock of the Company.

During the year ended September 30, 2003, the Company issued 1,540,000 shares of unregistered common shares for consulting services, 64,657 unregistered common shares for director fees. These shares were issued at the rate of \$.10 per share. Also, there were a total of 2,436,000 unregistered shares for a Private Placement in Europe for a total of \$61,243.

During the year ended September 30, 2002, the Company issued securities in the transactions below without registering the securities under the Securities Act of 1933. No underwriter, sales or placement agent was involved in any of the transactions.

On October 25, 2001 the Company issued the following restricted shares of common stock to the following persons in exchange for their services: Karen Lee (10,000 shares), Robert Anderson (25,000 shares), Amber Smith (15,000 shares), J.V. Rhyne (10,000 shares), Benjamin Botello (45,000 shares), Barbara Williams (1,000 shares), Susie Hare (1,000 shares) and Melissa Eason (1,000 shares). The Company also sold to Dale Houlette, an existing shareholder, 25,000 restricted common shares for \$5,000.

On December 7, 2001 the Company issued 228,000 restricted common shares as compensation to its officers and directors (William R. Miertschin, Victoria Lucas and Howard Siegel).

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LOCALTELECOM SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

On March 19, 2002 the Company issued 350,000 restricted common shares when Stephen Grosberg, an existing shareholder, exercised 350,000 warrants. These warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$70,000.

On April 1, 2002 the Company issued 300,000 restricted common shares when Herbert Wolas, an existing shareholder, exercised 300,000 warrants. These

warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$60,000.

On February 15, 2002 the Company issued 2,719,818 restricted common shares for consulting services to Graford Communications Group and Copano Bay Associates, Texas general partnerships partially owned by Richard M. Hewitt, a director, and two accredited investors, for the acquisition and for providing funding arrangements for the merger with Local Telecom Services, Inc. These consulting services received only restricted shares for compensation.

On April 18, 2002 the Company made effective the 4-for-5 reverse stock split and allocated 27,335,584 restricted common shares for the acquisition of all property, rights, privileges, leases of LTSI which became effective on August 30, 2002 and allocated 11,374,416 restricted common shares for funding the merged entity.

### 3. IMPAIRMENT LOSS

The asset groups not covered by SFAS 144 that are included in an asset group are adjusted in accordance with other applicable accounting standards prior to testing the asset group for recoverability. The Company has categorized all of its long-lived assets as being held and used and not to be sold. During the year ended September 30, 2003, the Company recognized an impairment loss of \$484,526 relating to the goodwill and licenses acquired in the acquisition completed in August 2002.

### 4. NOTE PAYABLE

The Company formed the LTS Unit Investment Trust ("UIT") in March 2003 to finance the growth and expansion of the Company. The trust contained a total of 705 units with a total amount of \$3,525,000 to be raised. As of September 30, 2003, a total of \$32,500 has been recorded as a note payable. The structure of the offering is for UIT to receive 60% of the net profit unit until repaid in full. Also, each unit receives 7,500 shares of common stock for each unit (\$5,000) funded. The Company discontinued the UIT offering program on June 30, 2003.

### 5. RELATED PARTY TRANSACTIONS

The Company has significant relations with the President and principal shareholder, William R. Miertschin in the form of salary (paid in stock) and expenses.

## 6. INCOME TAXES

At September 30, 2003, the Company had net operating loss carry forwards totaling approximately \$9,100,000 available to reduce future taxable income through the year 2022. Due to changes in control of the Company, these carry forwards are limited on an annual basis.

## 7. ACQUISITION

Local Telecom Systems, Inc. (LTSI) is a local telephone service reseller with a three-year old customer base in Texas, New Mexico and Arizona. LTSI recently acquired the necessary licenses and inter-connect agreements to offer, on a national basis, prepaid local telephone service and various ancillary products such as 911, caller ID and prepaid long distance in 45 states.

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### LOCALTELECOM SYSTEMS, INC. NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2003

The transaction is being accounted for as a "purchase" following the procedures of SFAS 142, "Accounting for Business Combinations.

The following table summarizes the estimated fair value of the assets of the assets acquired and liabilities assumed at the date of acquisition:

Current Assets	\$	20,582
Fixed Assets		35,000
Goodwill		721,116
Licenses		525,000
Debt Assumed	(	415,803)
		-----

Net Assets Acquired

\$ 885,895  
=====

## 8. COMMITMENTS AND CONTINGENCIES

## Concentration of Credit Risk

The Company invests its cash and certificates of deposit primarily in deposits with major banks. The Company has not incurred losses related to its cash.

## Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies.

The fair value of financial instruments classified as current assets or liabilities including cash and cash equivalents and accounts payable approximate carrying value due to the short-term maturity of the instruments.

## 9. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company does not have significant cash or other material assets. The issues related to unpaid telephone excise tax and a potential debt that was not assumed raises substantial doubt about its ability to continue as a going concern. The stockholders/officers and or directors have committed to advancing operating costs of the Company interest free to continue operations for the next twelve months, but they are not legally obligated to do so.

## 10. SUBSEQUENT EVENTS

There were no other subsequent events that have occurred after the balance sheet date that warrants disclosure.

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements between the Company and its auditor, Clyde Bailey, P.C., San Antonio, Texas, regarding accounting and/or financial disclosure.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons

The following are the officers and directors of the Company as of January 13, 2004:

Name	Age	Date First Elected	Term	Position
William R. Miertschin	56	1997	1 year	President, CEO & Director
Katey J. Daniel	30	2003	1 year	Secretary & Director
Arthur R. Berger	74	2003	1 year	CFO
Amber G. Smith	39	2002	1 year	Treasurer
Richard M. Hewitt	66	2002	1 year	Director

William R. Miertschin, President, Chief Executive Officer, and Chairman of the Board of Directors, is an oil and gas consultant with offices in Dallas, Texas. A 1972 graduate of the University of Texas at Austin, with a BA in Mathematics, he completed additional courses in petroleum engineering at the University of Texas of the Permian Basin in 1978. Beginning his oil and gas career in 1975,

Miertschin served as an Engineer with the Baroid Division of NL Industries in Odessa, Texas. From 1977 to 1979, Mr. Miertschin was Drilling Supervisor for Gulf Oil Exploration and Production, being the first trainee to complete Gulf Oil's drilling and production engineering training program. Thereafter, he was employed with Mesa Petroleum (1979-1985) as Corporate Supervisor of Regulatory and Safety in Amarillo, Texas, and as Drilling Supervisor and Senior Drilling Engineer in Midland and Amarillo, Texas, managing Mesa's corporate drilling and completion operations for all of the Permian Basin Division, Texas Panhandle and Kansas. In 1986 he graduated from the Leadership Amarillo Program of the Amarillo Chamber of Commerce. A former member of the Society of Petroleum Engineers, Mr. Miertschin has served as an expert witness before the Kansas Corporation Commission (KCC) and the New Mexico Oil Conservation Commission (NMOCC) on regulatory affairs, drilling and completion, and analysis of potential production purchases. He also served on the Oil and Gas Advisory Committee to KCC to revise statewide rules in Kansas. Mr. Miertschin has been active in the oil and gas industry as an investor and operator, and has been in private practice as a consultant in the Dallas-Fort Worth area for the last fourteen (14) years. Since 1997, Mr. Miertschin has served as President, Chief Executive Officer and Chairman of the Board of Directors of the Company and its subsidiaries. During this period he maintained, funded and expanded the operations of the Company. He has agreed to continue with Local Telecom Systems, Inc. in those same capacities. Mr. Mierstchin is also currently serving as the President of each of the former subsidiaries of the Company. See Item 13 "Certain Relationships and Related Transactions." Also, he is currently a Vice-President of the Dallas Safari Club.

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Arthur R. Berger, CPA, Chief Financial Officer. Mr. Arthur R. Berger is a CPA, licensed in the State of Texas. Mr. Berger has an undergraduate degree from Southern Methodist University and two master's degrees from the University of Illinois. He has had senior executive responsibilities in several industries including manufacturing and financial services. Mr. Berger is a former partner in Arthur Andersen & Co.'s consulting group. Prior to joining the LTSI's management team, Mr. Berger had a successful professional practice. In that capacity, Mr. Berger worked with other key LTSI personnel and has been associated with LTSI for over 2 years.

Katey J. Daniel, Secretary, Director of Operations, and a Director of the

Company since June 2003 is a 1996 graduate from Brandon University in Manitoba, Canada with a BBA and a 2000 graduate from the University of Dallas in Irving, Texas with a MBA with a major in Telecommunications and has been involved in sales, marketing, training, and now business development management positions in the telecommunications sector.

Amber G. Smith, Treasurer of the Company since February 2002, a native of Friona, Texas, Ms. Smith is a 1986 graduate of West Texas State University, Canyon, Texas. Ms. Smith worked as Telecommunications Manager of Span Instruments, Inc., Plano, Texas from 1991 until 1996. Since 1996 she has been active in managing her personal investment portfolio and performing consulting services for both public and private companies. In 1989 and 1990 she was

Communications Manager of H.D. Vest Financial Services, Inc., Irving, Texas, a securities broker dealer. Ms. Smith also currently serves as Secretary of Cumberland Continental Corp. and Signature Financial Services, Inc. both of which are former subsidiaries of the Company.

Richard M. Hewitt, Director of the Company since February 2002, is a sole practitioner attorney specializing in securities law. A 1958 graduate of Grinnell College, Grinnell, Iowa, with an AB degree, Mr. Hewitt holds an LLB degree from Southern Methodist University, College of Law in Dallas, Texas (1963). He has been in private practice in the Dallas-Fort Worth area for the last 20 years. Mr. Hewitt is currently Vice President and a Director of Gas Transmission Organization, Inc., Dallas, Texas, a Secretary/Treasurer and Director of Signature Healthcare, Inc. and a Director of Golden Chief Resources, Inc., Dallas, Texas, a publicly owned independent oil and gas producer.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of reports filed with the Company, several persons (William Miertschin, Amber Smith, Tracey Norris, Arthur Berger, Katey Daniel and Richard M. Hewitt) have not file all reports regarding transactions in the Company's securities required to be filed pursuant to Section 16(a) under the Securities Exchange Act of 1934.

#### Item 10. Executive Compensation

The Company's total remuneration for annual salary and bonuses does not exceed \$100,000 per officer. The Company currently does not have a compensation

committee, however, since the merger with Local Telecom Systems, Inc. an independent compensation committee will be formed to evaluate the annual remuneration for each of its officers.

Name	Position	Annual Compensation
William Miertschin	President & CEO	\$30,000
Katey Daniel	Secretary	\$12,000
Arthur R. Berger	CFO	\$30,000
Amber Smith	Treasurer	\$ 6,000

The Directors of the Company, William Miertschin and Richard M. Hewitt both receive 39,000 shares of restricted common stock per year as compensation for their services as directors plus reimbursement of any approved out of pocket expenses incurred on behalf of the Company. Tracey Norris a former director and officer received 24,000 shares until her resignation and then Katey Daniel received 15,000 shares for the fourth quarter.

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#### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following is certain information concerning the officer and directors and persons or firms who are known by the Company to own beneficially more than 5% of the Company's common stock (16,284,423 shares) and voting shares on January 14, 2004:

Title of Class	Name and Address of Beneficial Owner	Number of Shares Owned	Percent of Class
Common Stock \$0.0167 Par Value	Connect Holding Corp. 1133 Empire Drive Dallas, Texas 75247	330,000*	2.026
Common Stock \$0.0167 Par Value	Sammy Dog, Ltd. 400 North Bailey Ave. Fort Worth, Texas 76107	330,000**	2.026



Common Stock	Ivan Webb	1,481,085	9.095
\$0.0167 Par Value	901 West 6th Street Cisco, Texas 76437		

Common Stock	John Davis	1,828,181	11.226
\$0.0167 Par Value	Hillandale, Seaway Lane Torquay, Devon United Kingdom TQ2 6PN		

\*Connect Holding Corp. has 250,000 shares of preferred stock, which has voting rights equal to 12,500,000 shares of common stock.

\*\*Sammy Dog, Ltd. has 250,000 shares of preferred stock, which has voting rights equal to 12,500,000 shares of common stock.

-----  
Executive Officers and Directors  
-----

Common Stock	William R. Miertschin	314,163*	1.929
\$0.0167 Par Value	7738 Forest Lane #102 Dallas, Texas 75230		

Common Stock	Katey Daniel	65,000	.399
\$0.0167 Par Value	4202 Zion Hill Road Weatherford, Texas 76088		

Common Stock	Amber G. Smith	152,800	.938
\$0.0167 Par Value	6867 Anglebluff Circle Dallas, Texas 75248		

Common Stock	Richard M. Hewitt	397,242**	2.439
\$0.0167 Par Value	202 Fresh Meadow Drive Trophy Club, Texas 76262		

Common Stock	Arthur R. Berger	300,000	1.843
\$0.0167 Par Value	3813 Hilwood Way Bedford, Texas 76021		

All Directors and Officers as a group (4 persons)		1,229,205	7.548
---	--	-----------	-------

\* William R. Miertchin has 80,000 shares of preferred stock, which has voting rights equal to 4,000,000 shares of common stock.

\*\*Richard M. Hewitt has 20,000 shares of preferred stock, which has voting rights equal to 1,000,000 shares of common stock.

Changes in Control of Issuer:

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No changes occurred during the year ended September 30, 2003.

#### Item 12. Certain Relationships and Related Transactions

William R. Miertschin, President of the Company, is also President and Director of the four former subsidiaries of the Company that were distributed to the Companies shareholders in April 2002. These four former subsidiaries are International Royalty & Oil Co., formed in July 1999, Signature Financial Services, Inc., formed in July 2000, Cumberland Continental Corporation, formed in June 2001 and Signature Financial Services, Inc. formed in September 2001. However, the Company does not anticipate any conflicts of interest with him holding these corporate positions.

No other related transactions occurred between the Company and its officers, directors and affiliates.

#### Item 13. Exhibits and Reports on Form 8-K

Certifications by Chief Executive Officer and Chief Financial Officer.

#### Item 14. Controls and Procedures

- (a) The Company plans to expand the Board of Directors within the fiscal year ending September 30, 2004 to provide an independent board which will then create two committees independent of management 1) audit committee and 2)

compensation committee.

- (b) No significant changes occurred in the internal controls of the Company during the fiscal year ended September 30, 2003.
- (c) Not Applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Local Telecom Systems, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOCAL TELECOM SYSTEMS, INC.

Date: January 14, 2004

/s/ William R. Miertschin

-----  
By: William R. Miertschin, President &  
Chief Executive Officer

Date: January 14, 2004

/s/ Arthur R. Berger

-----  
By: Arthur R. Berger, CFO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Katey Daniel	Secretary & Director	January 14, 2004
----- Katey Daniel		
/s/ William R. Miertschin	President, CEO & Director	January 14, 2004
-----		

William R. Miertschin

/s/ Richard M. Hewitt

Director

January 14, 2004

Richard M. Hewitt

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INDEX TO EXHIBITS

EXHIBT NO.	PAGE NO.	DESCRIPTION
3(i)	*	Articles of Incorporation
3(ii)	*	Bylaws
31(i)	17	302 Certification of Chief Executive Officer
31(ii)	18	302 Certification of Chief Financial Officer
32(i)	19	906 Certification of Chief Executive Officer
32(ii)	20	906 Certification of Chief Financial Officer

\* Previously filed as indicated and incorporated herein by reference from the referenced filings previously made by the Company.

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EXHIBIT 31(i)

CERTIFICATION

I, William R. Miertschin, CEO do hereby certify that:  
 1. I have reviewed this annual report on Form 10-KSB of Local Telecom Systems, Inc

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:

5. The registrant's other certifying officers and I have disclosed, base on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this

annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date January 14, 2004  
-----

/s/William R. Miertschin  
-----

William R. Miertschin, Chief Executive  
Officer

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EXHIBIT 31(ii)

#### CERTIFICATION

I, Arthur R. Berger, CFO do hereby certify that:

1. I have reviewed this annual report on Form 10-KSB of Local Telecom Systems, Inc
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those

entities, particularly during the period in which this annual report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:

5. The registrant's other certifying officers and I have disclosed, base on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date January 14, 2004  
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/s/Arthur R. Berger  
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Arthur B. Berger, Chief Financial  
Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Local Telecom Systems, Inc. (the "Company") on form 10-KSB for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William R. Miertschin, President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Okley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ William R. Miertschin  
-----

William R. Miertschin  
Chief Executive Officer

Date: January 14, 2004  
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EXHIBIT 32(ii)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Local Telecom Systems, Inc. (the "Company") on form 10-KSB for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I,



Arthur R. Berger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ Arthur R. Berger  
-----  
Arthur R. Berger  
Chief Financial Officer

Date: January 14, 2004  
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